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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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For Labor . . .

While declining energy and food prices have been the most publicized contributors to bringing down the rate of inflation over the past year, there is another less frequently mentioned development which has also played an important role. This is the drop in the "underlying" or "core" rate of inflation. After peaking at 9.9 per cent in 1981, year-over-year, this component—the annual rise in labor and capital costs per unit of output—slowed to eight per cent by the end of last year, reversing a 15-year upward spiral.

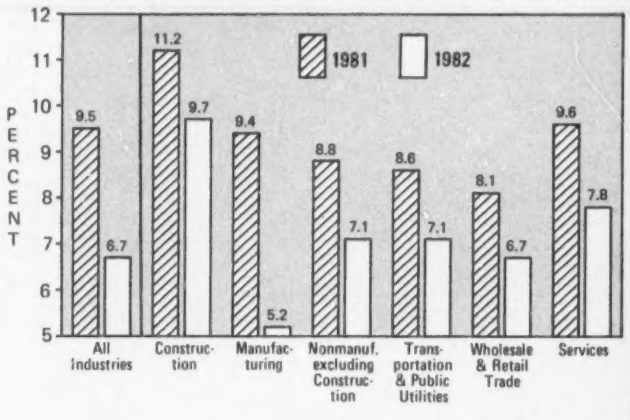
Lower capital costs contributed about one-third to this slowdown—reflecting lower interest rates, tax incentives for investment and the runup in equities prices. However, the moderation in wage increases, combined with last year's rise in private sector productivity, was by far the largest contributor. Compensation per hour (including employers' payments for social insurance and benefit plans) rose by 7.2 per cent in 1982, posting the smallest rise since 1977. A continuation in the decline in the core rate of inflation will be crucial in holding down prices as the current recovery picks up steam.

. . . It Will Be Another Year . . .

One of the more important reasons for this moderation in wage increases was the sharp reduction in gains received by organized labor. Their demands last year were tempered by the depressed state of the economy. In an effort to preserve jobs, labor accepted much lower pay raises in some industries while in others they agreed to wage freezes—and even pay cuts. By the end of 1982, this trend spread to virtually all industries, including automobiles, food processing, textiles, trucking and airlines. As a result, major collective bargaining agreements provided the lowest wage and salary adjustments since the Bureau of Labor Statistics started keeping records in 1967.

Averaging only 3.8 per cent in the first contract year, these wage increases compared with nearly eight per cent when the same parties negotiated previously, two to three years ago. What is more, about a third of the 3.3 million workers covered by last year's settlements received no specified increases during the life of their contracts. However, nearly all are scheduled to receive some cost-of-living adjustments.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
TOTAL EFFECTIVE WAGE ADJUSTMENTS BY INDUSTRY



Effective wage adjustments (which include not only settlements reached during a period, but also deferred increases negotiated earlier and cost-of-living adjustments) provided on average a 6.7 per cent increase in pay in 1982 (see chart)—the lowest in ten years. At 9.7 per cent, wage gains were highest in the construction industry, despite the fact that one out of five construction workers is currently out of a job. Although this was down from an 11.2 per cent increase the year before, it was still nearly 50 per cent above the all-industry average. Manufacturing workers, with only 5.2 per cent effective wage raises last year, received the smallest gains.

. . . Of Settling For Less

But even with the recovery under way, many workers may not see their paychecks increase much in 1983. With the inflation rate at its lowest level in more than a decade, joblessness at nearly a 40-year high and many industries still deeply depressed, labor is again dealing from a position of weakness at the bargaining table. As a result, this is likely to be another year of modest pay increases for blue and white collar workers alike. It will be a particularly

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important year for organized labor since 3.6 million workers are under major contracts which are due to expire or be reopened.

For example, the steel companies are in desperate need to reduce costs. The industry's financial condition in the first quarter was still depressed despite a modest improvement. The steel workers' three-year contract with the Big Eight steel companies was due to expire on August 1, 1983, but labor and management began negotiations almost a year early to cut costs and thus try to improve the industry's profitability. An agreement was finally reached last month calling for numerous wage and benefit concessions. Workers' pay was cut by an average of $1.31 an hour—of which only $1.25 will be restored over the next three years—and cost-of-living adjustments will be foregone until mid-1984. Furthermore, vacations will be shortened by one week, while vacation bonuses and extended vacations—up to 13 weeks every five years—eliminated. What the unions did win, however, was a commitment by the manufacturers to reinvest the savings derived from these concessions in more modern steelmaking facilities, with the hope of creating more jobs in the future.

Steel workers employed by the major can companies

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/6/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.311	+ 1.936	+11.651
Loans to Depository Inst.	1.767	+ .871	+ .287
Float	1.747	– .231	– 1.221
Total Reserve Bank Credit	157.955	+ 2.456	+10.547
Treasury Deposits with Federal Reserve Banks	3.861	+ 1.327	– .077
Currency Outside Banks	138.556	+ 1.094	+11.657
Member Bank Reserves:			
Required	37.317	– .520	– .846
Excess (Deficiency)	.774	+ .320	+ .502
Total Reserves Held	38.091	– .200	– .344
Net Borrowed Reserves	.585	+ .510	– .178
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.114	+ 1.664	+18.282
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	499.4	+ 15.9‡	+ 10.7‡
M2 (March '83)	2,066.1	+ 21.8	+ 13.0
M3 (March '83)	2,443.4	+ 11.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/15/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	7.90%	8.00%
* Federal Agencies	8.75	8.85	8.90
* Project Notes–Taxfree (46% Taxable Equivalent)	8.24	8.52	9.17
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.63	8.70	9.30

‡Finance Company Paper–Prime

5- 14 days	8.63%
15- 29 days	8.63
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances

May	8.45%
Jun.	8.45
Jul.	8.45
Aug.	8.45
Sep.	8.45
Oct.	8.35

‡Industrial Paper–Prime

30- 89 days	8.50%
90-120 days	8.45

†Federal Funds Effective Rate 8.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.1	0.7	– 5.3
Change in Consumer Prices (new series)*	Feb '83	– 2.4%	2.4%	1.2%
Change in Producer Prices*	Mar '83n	– 1.2%	1.2%	– 3.6%
Civilian Employment (Thousands of Persons)†	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Mar '83n	139.1	137.6	141.7
Net Change in Consumer Installment Credit†	Feb '83n	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Feb '83	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Feb '83n	$ 508.1	$ 507.6	$ 513.9
Total Business Sales †	Feb '83n	$ 339.1	$ 343.7	$ 340.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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fared better than those working in steel mills. They will keep their current wages, but will not receive any wage increases until 1986. They will also retain quarterly cost-of-living adjustments. Contracts expiring in the construction industry always involve large numbers of workers each year, but more workers will be affected in 1983 than during any other year on record. However, continued weakness in the construction industry is likely to limit the bargaining ability of the trade unions. Unemployment in the industry is currently above 20 per cent as more than 830,000 workers lost their jobs in the past three years. But while residential construction has picked up dramatically—housing starts are now running double the rate of last year—nonresidential investment for structures has stagnated as many companies continue to postpone capital spending projects while the office building boom has come to an end.

In sum, wages will continue to rise more slowly in 1983. Many ailing industries will ask for concessions in order to survive until business improves again. Labor will probably agree, in view of the bleak employment situation and the need to preserve jobs. Thus, the rate of inflation will continue low—trends in money growth notwithstanding. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/30/83)	107,072	– 300	–26,412
New York City (3/30/83)	28,382	– 16	– 4,486
Commercial Paper (3/30/83)	167,672	– 448	+ 1,145*

*Series redefined. Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/30/83)	216,513	– 137	+12,902
New York City (3/30/83)	59,295	+ 175	+ 2,735

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/30/83)	503,003	+ 1,443	+22,826
New York City (3/30/83)	117,010	+ 1,247	+ 5,638

Financial Markets

	Friday 4/15/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.37%	– .23	– 4.98
180-Day Bills†	8.63	– .17	– 5.35
Longest Bills†	8.87	– .17	– 5.26
Recent Issues:			
9⅝s 3/31/85	9.45	– .22	
10¼s 3/31/87	9.83	– .22	
10⅞s 2/15/93	10.28	– .22	
10⅜s 11/15/12	10.34	– .21	
Municipals:			
Bond Buyer–20 Bond Index* (4/14/83)	9.04%	– .19	– 3.50
Blue List Total ($ Million)	$1,111	– $154	+ $ 403
30-Day Visible Supply ($ Million)	$3,336	– $260	+ $1,304
Total	$4,447	– $414	+ $1,707
Corporates:			
Moody's Aa Composite (4/14/83)	11.99%	– .15	– 2.90
30-Day Visible Supply ($ Million)	$ 727	– $ 18	– $1,121
Stocks:			
Dow-Jones Averages:			
Industrials	1,171.25	+ 46.54	+ 327.83
Transportation	529.94	+ 20.57	+ 183.37
Utilities	126.06	+ 1.75	+ 13.79
65 Stocks	462.01	+ 16.71	+ 129.04
Standard and Poor's 500 Stocks	158.75	+ 5.90	+ 41.94
N.Y.S.E. Composite Index	91.18	+ 3.31	+ 23.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,378	+16,902	+ 39,940

* 46% Taxable equivalent 16.74%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/15/83	Week Ago
Overnight	8.50%	9.19%
1 month	8.75	9.31
3 month	8.75	9.44
6 month	9.06	9.50
1 year	9.38	9.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.65%
Long Term (7 to 15 yrs.)	11.65	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/15/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02060	48.55
Canada	.8114	1.2325
Denmark	.1158	8.6375
France	.1369	7.3035
Germany	.4105	2.4358
Italy	.0006894	1450.50
Japan	.004207	237.68
Mexico	.006515	153.50
Netherlands	.3643	2.7447
Switzerland	.4891	2.0445
U.K.	1.5413	.6488

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To learn how the Manufacturers Hanover active approach to pension fund management can affect your plan, contact William C. Petty, III, Vice President, at (212) 957-0760. Or write to him at the address below.

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1982.
†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies